

**REPORT OF THE AUDIT OF THE
HOPKINS COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 8, 2009 Through April 15, 2010**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HOPKINS COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 8, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for Hopkins County Sheriff for the period May 8, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$20,055,357 for the districts for 2009 taxes, retaining commissions of \$553,754 to operate the Sheriff's office. The Sheriff distributed taxes of \$19,481,868 to the districts for 2009 taxes. Taxes of \$202 are due to the districts from the Sheriff and refunds of \$3,935 are due to the Sheriff from the taxing districts.

Report Comments:

2009-1 Taxes Were Over Charged To Tax Payers For Non-Commercial And Inventory-In-Transit Taxes

2009-2 The Sheriff Should Distribute Interest In Compliance With KRS 134.140 (3) (b)

2009-3 The Sheriff Should Distribute 10% Add-On Fees In Compliance With KRS 134.119 (7)

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Donald E. Carroll, Hopkins County Judge/Executive

Honorable Frank Latham, Hopkins County Sheriff

Members of the Hopkins County Fiscal Court

Independent Auditor's Report

We have audited the Hopkins County Sheriff's Settlement - 2009 Taxes for the period May 8, 2009 through April 15, 2010. This tax settlement is the responsibility of the Hopkins County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hopkins County Sheriff's taxes charged, credited, and paid for the period May 8, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

2009-1 Taxes Were Over Charged To Tax Payers For Non-Commercial And Inventory-In-Transit Taxes

2009-2 The Sheriff Should Distribute Interest In Compliance With KRS 134.140 (3) (b)

2009-3 The Sheriff Should Distribute 10% Add-On Fees In Compliance With KRS 134.119 (7)

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

February 3, 2011

HOPKINS COUNTY
FRANK LATHAM, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 8, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,279,369	\$ 730,485	\$ 9,399,396	\$ 1,931,132
Tangible Personal Property	709,173	164,246	1,640,828	1,191,179
Fire Protection	3,394			
Increases Through Exonerations	1,226	528	5,039	1,038
Franchise Taxes	620,434	129,646	1,570,115	
Additional Billings	24,233	5,190	175,175	4,691
Oil and Gas Property Taxes	21,975	6,562	90,344	18,618
Bank Franchises	150,096			
Penalties	15,395	7,808	61,671	13,208
Adjusted to Sheriff's Receipt	20,915	304,124	50,909	1,184
Gross Chargeable to Sheriff	3,846,210	1,348,589	12,993,477	3,161,050
<u>Credits</u>				
Exonerations	24,511	9,941	67,020	9,092
Discounts	54,544	19,238	183,569	52,715
Delinquents:				
Real Estate	60,009	35,766	393,895	50,829
Tangible Personal Property	12,743	2,497	29,444	11,787
Franchise Taxes	73,331	15,695	187,343	
Total Credits	225,138	83,137	861,271	124,423
Taxes Collected	3,621,072	1,265,452	12,132,206	3,036,627
Less: Commissions *	153,896	44,835	225,966	129,057
Taxes Due	3,467,176	1,220,617	11,906,240	2,907,570
Taxes Paid	3,463,506	1,219,137	11,895,437	2,903,788
Refunds (Current and Prior Year)	3,530	1,599	14,605	3,734
Due Districts or (Refunds				
Due Sheriff) as of		**	***	
Completion of Audit	\$ 140	\$ (119)	\$ (3,802)	\$ 48

*, **, and *** See Next Page.

The accompanying notes are an integral part of this financial statement.

HOPKINS COUNTY
 FRANK LATHAM, SHERIFF
 SHERIFF'S SETTLEMENT - 2009 TAXES
 For The Period May 08, 2009 Through April 15, 2010
 (Continued)

* Commissions:

4.25% on	\$	7,647,858
1.87% on	\$	11,769,665
1.62% on	\$	362,541
1% on	\$	275,293

** Special Taxing Districts:

Health District	\$	(19)
Extension District		(10)
Earlington Fire District		11
Upper Pond Watershed District		3
Barnsley Volunteer Fire Department		(69)
South Hopkins Volunteer Fire Dept.		<u>(35)</u>

Due Districts or

(Refunds Due Sheriff)	\$	<u>(119)</u>
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*** School Districts

Common School District	\$	(3,799)
Dawson Springs School District		<u>(3)</u>

(Refunds Due Sheriff)	\$	<u>(3,802)</u>
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HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HOPKINS COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 2, 2009 through April 15, 2010.

Note 4. Interest Income

The Hopkins County Sheriff earned \$1,811 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of February 3, 2011, the Sheriff owed \$1,075 in interest to the school districts and \$736 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Hopkins County Sheriff collected \$78,422 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of February 3, 2011 the Sheriff owed \$78,422 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2005	\$6,083
2006	\$3,376
2007	\$6,329

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 7. Escrow Account

The Hopkins County Sheriff's office maintains a separate account for monies received during the tax year that cannot be clearly explained or returned. By statute, the Sheriff maintains this money for three years, after which time the money is turned over to the State Treasurer. The beginning balance of this account was \$15,657. During the 2009 tax year, there was interest of \$4, and expenditures of \$4,547 leaving an ending balance of \$11,114 as of April 15, 2010.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald E. Carroll, Hopkins County Judge/Executive
Honorable Frank Latham, Hopkins County Sheriff
Members of the Hopkins County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Hopkins County Sheriff's Settlement - 2009 Taxes for the period May 8, 2009 through April 15, 2010, and have issued our report thereon dated February 3, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hopkins County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hopkins County Sheriff's Settlement - 2009 Taxes for the period May 8, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2009-1, 2009-2, and 2009-3.

The Hopkins County Sheriff's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Hopkins County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 3, 2011

COMMENTS AND RECOMMENDATIONS

HOPKINS COUNTY
FRANK LATHAM, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 8, 2009 Through April 15, 2010

STATE LAWS AND REGULATIONS:

2009-1 Taxes Were Over Charged To Tax Payers For Non-Commercial And Inventory-In-Transit Taxes

During the recalculation of the official receipt, the auditor calculated a large variance. This was due to taxes being charged that were waived by various taxing districts. The County, Hopkins County School Board, and Extension Board sent confirmation letters to the County Clerk setting 2009 tax rates for these taxing districts. According to the letters sent to the County Clerk's office, the County and Hopkins County School Board decided to waive the non-commercial aircraft tax for tax year 2009. However, the official receipt showed aircraft taxes for the County taxing district were included on the tax bills for tax year 2009 resulting in an overcharge of \$19,529. An additional bill was created for aircraft taxes that had county taxes added in the amount of \$13,963. Also, the official receipt showed aircraft taxes for the Hopkins County School Board were included on the tax bills for tax year 2009 resulting in an overcharge of \$44,766. According to the letter sent to the County Clerk's office, the Extension Board decided to waive the inventory-in-transit tax for tax year 2009. However, the official receipt showed inventory-in-transit tax for the Extension Board taxing district was included on the tax bills for tax year 2009 resulting in an over billing of \$25,539. We recommend the County, Hopkins County School Board, Extension Board and County Attorney be informed of this situation, so a decision can be made as to what action needs to be taken.

Sheriff's Response: The Sheriff and Tax Collection Office were unaware of the miscalculation of the Non-Commercial Aircraft taxes and Inventory In Transit Taxes. On February 8, 2011, a meeting was held with the Extension Office, County Attorney, County Clerk, Hopkins County Board of Education, Sheriff and County Judge Executive to discuss how the refunds will be handled to the affected taxpayers. We were advised by the Hopkins County Clerk that there will be the same issue for the 2010 tax collection period which we are currently collecting. The PVA will send notifications to the affected parties. Upon the request for refund, the County Attorney will hold and issue the refunds from an escrow account.

2009-2 The Sheriff Should Distribute Interest In Compliance With KRS 134.140 (3) (b)

During the computation of interest due schools, the auditor observed interest was not paid in compliance with KRS 134.140 (3) (b). The Sheriff's office did not pay interest to the schools or to the fee account in the amount of \$1,822. The Sheriff's office should pay interest monthly to the school districts and to the fee account to be compliant with KRS 134.140 (3) (b).

Sheriff's Response: The interest will be issued to the correct entities in accordance with the law.

2009-3 The Sheriff Should Distribute 10% Add-On Fees In Compliance With KRS 134.119 (7)

During the test of 10% add-on fees, the auditor observed no 10% add-on fees were paid to the fee account. The bookkeeper was aware that there was a problem with the software's calculation of 10% add-on fees, and as a result, did not pay the add-on fees to the fee account. However, the Sheriff's office should have recalculated add-on fees and paid them monthly. In the future, the Sheriff's office should pay 10% add-on fees monthly in compliance with KRS 134.119 (7).

HOPKINS COUNTY
FRANK LATHAM, SHERIFF
COMMENTS AND RECOMMENDATIONS (CONTINUED)

For The Period May 8, 2009 Through April 15, 2010

2009-3 The Sheriff Should Distribute 10% Add-On Fees In Compliance With KRS 134.119 (7)
(Continued)

Sheriff's Response: The 10% add-on fees were not distributed due to a miscalculation in the tax collection software. The software provider has been notified and the issue should not arise in the future. Therefore, the add-on fees will be distributed in accordance with the law.

